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In Our Opinion...

*The Newsletter of the AICPA Auditing Standards Division**

Volume 10 Number 1

April 1994

IN THIS ISSUE...

• THE AUDIT ISSUES TASK FORCE	1
• TECHNICAL PLAN HIGHLIGHTS	2
• REMAINING 1994 ASB MEETING DATES	4
• AUDITING STANDARDS DIVISION STAFF	4

THE AUDIT ISSUES TASK FORCE

The Auditing Standards Board's (ASB's) Audit Issues Task Force (AITF) plays a crucial role in assisting the ASB in fulfilling its responsibilities as well as determining the direction of its agenda. The AITF is composed of six ASB members who are appointed annually by the ASB Chair and the AICPA Vice President-Auditing. The AITF meets on a monthly basis to address emerging auditing and attestation practice issues.

The AITF's agenda is developed primarily from:

- Letters from practitioners depicting audit or attestation practice problems they have experienced.
- Communications from members of the ASB and its task forces on audit or attestation issues they have noted.
- Concerns raised by staff or committees of other AICPA divisions (for example, the Audit and Accounting Guide Division, the Accounting Standards Division, the Peer Review Committees of the SEC Practice Section and the Private Companies Practice Section, and the Quality Review Executive Committee).
- Matters raised at the Auditing Standards Division's (the Division's) liaison meetings with external groups such as the American Bar Association, the Financial Executives Institute, the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Technical Issues Committee, and the Public Oversight Board.

Based on the AITF's review of each issue, it determines whether professional guidance should be developed or revised. In some cases, based on the nature of the issue, the AITF may recommend forming a task force to address the matter and determine whether a revision to the Statements on Auditing Standards (SASs) or the Statements on Standards

for Attestation Engagements (SSAEs) is necessary. If a task force already exists that has the jurisdiction to address the issue, the AITF refers the matter to that task force.

The AITF, with the assistance of the Division staff, develops guidance on practice issues that are not referred to a task force. The guidance may take the form of (1) an interpretation to the SASs or the SSAEs, (2) a Technical Practice Aid, (3) an Auditing Procedures Study, or (4) an item for inclusion in the annual *Audit Risk Alert*. Interpretations developed by the AITF are reviewed by the ASB before final issuance.

In addition to addressing practice issues, the AITF:

- Monitors the progress of the ASB task forces.
- Assists in resolving technical concerns raised on ASB projects by providing advice and counsel to the task forces.
- Assists the ASB Chair in liaison with other groups and in addressing administrative matters.
- Provides input to the Division staff on technical issues.

The AITF's deliberations are reported to the ASB at each of its public meetings. The 1994 AITF members are:

John B. Sullivan, Chair, *Deloitte & Touche*
 Walter R. Bogan, *Price Waterhouse*
 James E. Brown, *Baird, Kurtz & Dobson*
 Timothy E. Durbin, *Arthur Andersen & Co.*
 George A. Lewis, *Broussard, Poche, Lewis & Breaux*
 Edmund R. Noonan, *KPMG Peat Marwick*

If you would like more information on the AITF, please call Jeanne Summo at 212/596-6030.

TECHNICAL PLAN HIGHLIGHTS

NEW ASB TASK FORCES

Analytical Procedures (STAFF AIDE: J. ERIC NICELY). The Analytical Procedures Task Force is considering certain issues related to SAS No. 56, *Analytical Procedures*, to determine whether the standard needs to be revised. The task force will consider whether to expand SAS No. 56 to provide additional guidance for practitioners in performing analytical procedures as part of their substantive tests, including when the use of analytical procedures is appropriate, cautions regarding use, and effectiveness of different analytical techniques. The task force will evaluate how analytical procedures may assist in the detection of fraud and how closely analytical procedures should be tied to the audit risk model, including whether expectations should be developed. The task force will also make recommendations for topics to be included in an Auditing Procedures Study on analytical procedures. The task force began to address these issues in March 1994 and plans to present its preliminary findings at the June 1994 ASB meeting.

Electronic Evidence (JANE MANCINO). A task force has been formed to consider whether existing guidance on evidential matter in the auditing and attestation standards is appropriate given that a significant amount of evidential matter is now electronic in nature. The task force will evaluate how an auditor's responsibility for detection of material misstatements, including fraud, in the financial statements may be affected by electronic evidence. Finally, the task force will consider the need for non-authoritative guidance for auditors relating to electronic evidence. The task force is composed of members of the ASB, the Computer Auditing Subcommittee, the Information Technology Research Subcommittee, and the Information Technology Practices Subcommittee.

Environmental Issues Task Force (JUDITH SHERINSKY). A project is planned to form a task force to monitor the activities of: 1) the AICPA's Environmental Accounting Task Force; 2) the International Auditing Practices Committee; and 3) standard-setting bodies in other countries and to continuously evaluate the need for auditing or attestation guidance related to environmental matters. The task force is monitoring the activities of the Accounting Standards Division's Environmental Accounting Task Force and, based on its deliberations, will proceed with determining whether auditing guidance on the topic should be issued.

Fraud (JANE MANCINO). A task force has been formed to consider clarifying the auditor's responsibility for the detection of fraud, as described in SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*. In addition, the task force will consider revising factors that may indicate increased risk of management fraud and providing separate indicators of employee fraud such as defalcations. Based on the results of the task force's considerations, the task force will evaluate whether the auditor's report needs to be revised.

SAS TASK FORCES

Auditing "Soft" Accounting Information (JUDITH SHERINSKY). The task force is examining existing and proposed accounting standards that generate "soft" financial statement information. Examples of "soft" accounting information are the estimates contained in financial statements. The task force met in March 1994 to address the Public Oversight Board's recommendation that the ASB revise the auditor's standard report to make readers aware of the prospective nature of certain accounting estimates and to indicate that the estimated results may not be achieved. At the June 1994 ASB meeting, the task force will present arguments supporting and opposing the proposed change and will also present draft language for a revised standard auditor's report.

Internal Control Guidance (ALAN WINTERS). A task force was formed to propose necessary revisions to SAS No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*, to reconcile with the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's Report, *Internal Control — Integrated Framework*. The task force will also consider whether revision to other related professional standards is necessary. The task force will present its recommendations at the April 1994 ASB meeting.

SAS No. 11 Guidance Task Force (JEANNE SUMMO). The SAS No. 11 Guidance Task Force was formed to consider whether the guidance in SAS No. 11, *Using the Work of a Specialist*, continues to be appropriate. The task force's proposed revision to SAS No. 11 incorporates the conclusions in the two interpretations to SAS No. 11 and also refines the guidance on using a specialist who is related to the client. The document was issued as an exposure draft SAS in April 1993 with a comment period ending June 30, 1993. The Board will discuss a revised draft of the document at its April 1994 meeting. A final document is expected to be issued mid-year.

SAS No. 59 Guidance Task Force (JUDITH SHERINSKY). The task force is considering issues related to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, to determine whether there is a need for additional guidance in the form of amendment or interpretation of SAS No. 59. The ASB has approved the addition of a footnote to paragraph 13 of SAS No. 59 that would preclude the auditor from using conditional language in the auditor's conclusion about the entity's ability to continue as a going concern. At the June 1994 ASB meeting, the task force will present a draft of proposed guidance for auditors who are asked to reissue a report without a going-concern explanatory paragraph after the situation giving rise to substantial doubt about the entity's ability to continue as a going concern has been resolved, but prior to the next audit.

SAS No. 68 Revision Task Force (A. LOUISE WILLIAMSON). A task force was formed to consider revisions to SAS No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, as a result of issuance of SOP 92-7, *Audits of State and Local Governmental Entities Receiving Federal Financial Assistance*, SOP 92-9, *Audits of Not-for-Profit Organizations Receiving Federal Awards*, and the draft proposed Audit and Accounting Guide, *Audits of State and Local Governmental Units*. The task force will consider the effect of proposed revisions to the General Accounting Office's (GAO's) *Government Auditing Standards* (Yellow Book) and possible revisions to the Single Audit Act of 1984 resulting from studies conducted by the GAO and the President's Council on Integrity and Efficiency. The task force presented a draft of revisions to SAS No. 68 at the December 1993 ASB meeting and the ASB agreed to ballot the document for issuance as an exposure draft SAS. An exposure draft SAS is expected to be issued in May 1994.

SSAE TASK FORCES

Agreed-Upon Procedures (J. ERIC NICELY/A. LOUISE WILLIAMSON). The Agreed-Upon Procedures Task Force is considering amendment to or expansion of the performance and reporting guidance in professional standards dealing with agreed-upon procedures engagements. The task force is considering guidance concerning the practitioner's reporting responsibility for both findings and assurances in such engagements. The task force is also considering whether internal auditors may be used in agreed-upon procedures engagements and what effect the use of internal auditors would have on agreed-upon procedures reports. In addition, the task force has updated the related issues paper that was presented to the ASB in June 1990 identifying all instances in the professional standards where negative assurance based on agreed-upon procedures is permitted. The task force presented two proposed statements (one auditing, one attestation) for agreed-upon procedures engagements at the February 1994 ASB meeting and will continue its discussion at the April 1994 ASB meeting.

Financial Forecasts and Projections (DAN GUY/LINDA VOLKERT). The Forecasts and Protections Task Force monitors and addresses problems encountered in implementing the guidance in the *Statement on Standards for Accountants' Services on Prospective Financial Information, Financial Forecasts and Projections*. An updated AICPA Audit and Accounting Guide, *Guide for Prospective Financial Information*, was published in March 1993.

Reporting on Internal Control (A. LOUISE WILLIAMSON). In May 1993, the ASB issued SSAE No. 2, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*, which supersedes SAS No. 30, *Reporting on Internal Accounting Control*. SSAE No. 2 is effective for examinations

of management's assertion when the assertion is as of December 15, 1993 or thereafter. This statement provides guidance to the practitioner engaged to examine and report on management's written assertion about the effectiveness of an entity's internal control structure over financial reporting. Among other provisions, it establishes standards for accepting, performing and reporting on examination engagements for such assertions. The ASB has requested that the task force review SAS No. 58, *Reports on Audited Financial Statements*, the Interpretation to SAS No. 8, *Other Information in Documents Containing Audited Financial Statements*, and the interpretations to SAS No. 30 to determine whether this guidance needs to be amended as a result of the new SSAE. At its October 1993 meeting, the ASB reached a consensus to delete the interpretations to SAS No. 30. A proposed revision to the Interpretation to SAS No. 8 was distributed in December 1993 to the ASB for its fatal-flaw review. A final interpretation will be issued in the May 1994 issue of the *Journal of Accountancy*. The task force is considering other issues and will present recommendations at the April 1994 ASB meeting.

SEC Auditing Practice (JANE MANCINO). The task force is revising the guidance in the 1987 exposure draft, *Reporting on Examination of Management's Discussion and Analysis*, for issuance as attestation guidance. The task force will bring issues related to the project to the Board at its April 1994 meeting.

APS TASK FORCES

Audits of Small Businesses (ALAN WINTERS). The Auditing Procedure Study (APS) titled *Audits of Small Businesses* is being revised to reflect SAS Nos. 53-62. (APSs provide practitioners with non-authoritative practical assistance concerning auditing procedures.) The chapters on evaluating internal controls and on performing analytical procedures will be revised to discuss the implementation of SAS Nos. 55 and 56, *Consideration of the Internal Control Structure in a Financial Statement Audit and Analytical Procedures*, respectively, in small business audits. Other changes will be made throughout the study to provide guidance that is consistent with recently-issued standards. The revised APS will be available in the second quarter of 1994.

Audit Sampling (ALAN WINTERS). A task force is developing an APS to replace the Audit and Accounting Guide, *Audit Sampling*. The APS updates the guide for recently issued SASs. A final APS is expected to be issued in the second quarter of 1994.

Computer Auditing (JANE MANCINO). The Subcommittee is currently drafting the following four APSs:

- The first, *Auditing in Common Computer Environments*, addresses the possible effects of advanced EDP systems on

continued on page 4

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the auditor's consideration of an entity's internal control structure in a financial statement audit. This APS is currently under review for approval to publish and is expected to be issued in mid-1994.

- The second, *Auditing With Computers*, updates the guidance in the Audit and Accounting Guide, *Computer-Assisted Audit Techniques*. This APS has been approved for publication and is expected to be published within the next three months.
- The third study describes client/server computing and its possible effects on the financial statement audit. This APS is undergoing revision prior to review for approval to publish. A final APS is expected to be published in late 1994.
- The fourth study is a joint study with the Canadian Institute of Chartered Accountants describing Electronic Data Interchange and Digital Image Processing and their possible effects on the financial statement audit. This APS is currently being written; it is scheduled for publication in 1995.

SAS No. 70 Auditing Procedure Study (JUDITH SHERINSKY). The task force is developing an APS that will provide guidance to auditors on implementing SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*. The APS will provide guidance to service auditors on performing and reporting on a service auditor's engagement and to user auditors on using a service auditor's report in the audit of the financial statements of a user organization. An example of a service organization is a bank trust department that invests and holds assets for employee benefit plans. The task force expects to issue the APS in the second quarter of 1994.

OTHER TASK FORCES

Accounting and Review Services (JUDITH SHERINSKY). The Accounting and Review Services Committee (ARSC) met

in February 1994 to discuss the applicability of the Statements on Standards for Accounting and Review Services (SSARS) to Medicare Cost Reports and tentatively concluded that the SSARS are applicable to such financial statements. The ARSC will launch a project to determine what other regulatory filings contain prescribed forms for financial statements that accountants may be required to compile. The staff will contact the AICPA industry committees as well as the Technical Issues Committee of the Private Companies Practice Section to obtain this information.

Audit Issues Task Force (JEANNE SUMMO). The Audit Issues Task Force meets monthly to assist the ASB Chair and the Auditing Standards Division staff with the technical review of audit and attestation issues to determine if those issues require ASB review (see article on page 1).

Joint Task Force on Quality Control Standards (JAMES CAREY). The task force was formed to consider whether the Statement on Quality Control Standards and the interpretations should be revised and to develop specific recommendations for revisions in those documents. The task force will also consider whether Section QC90 of AICPA *Professional Standards* "Quality Control Policies and Procedures for CPA Firms" should be revised and develop specific recommendations for revisions in those documents. The task force will also consider various approaches to responding to Recommendation V-5 of the Public Oversight Board's Report, *In the Public Interest*.

9000 Review Task Force (J. ERIC NICELY). The task force recently completed its review of exposure drafts of International Statements on Auditing and drafted the AICPA's comment letters on such drafts. The task force is currently preparing a proposed Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements. The task force will discuss this draft proposed Statement at the April 1994 ASB meeting.

REMAINING 1994 ASB MEETING DATES

April 19-21, 1994 (New York, NY)	August 2-4, 1994 (New York, NY)	November 15-17, 1994 (New York, NY)
June 14-16, 1994 (New York, NY)	October 4-6, 1994 (New York, NY)	December 13-15, 1994 (New York, NY)

For information about the ASB meeting agenda, call the AICPA toll free at 1-800-TO-AICPA.

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